

UNITED STATES DISTRICT COURT  
FOR THE MIDDLE DISTRICT OF PENNSYLVANIA  
(Harrisburg Division)

UNITED STATES FIDELITY AND GUARANTY COMPANY, Plaintiff	)	
v.	)	CIVIL ACTION NO. 1:01-CV-00813
BRUCE J. BROWN and BROWN SCHULTZ SHERIDAN & FRITZ, Defendants.	)	JUDGE CONNER

**GLOSSARY**

The above-captioned case utilizes both jargon and technical terms common in the construction industry, the accounting profession and in surety bond underwriting. To assist the Court, USF&G presents the following glossary of terms:

**Bonding Program (Capacity):** The total dollar value of construction bonds that a surety will underwrite for a contractor, based on the surety's predetermination of the overall volume of work that the contractor can handle. American Institute of Certified Public Accountants, *Contractors Audit and Accounting Guide*, Glossary, p. 199, *et seq.*, New York, NY (2002).

**Contract Backlog:** The amount of revenue that a contractor expects to be realized from work to be performed on uncompleted contracts, including new contractual agreements on which work has not begun. American Institute of Certified Public Accountants, *Contractors Audit and Accounting Guide*, Glossary, p. 199, *et seq.*, New York, NY (2002).

**Front-End Loading:** A procedure under which progress billings are accelerated in relation to costs incurred by assigning higher values to contract portions that will be completed in the early stages of a contract than to those portions that will be completed in the later stages so

that cash receipts from the project during the early stages will be higher than they otherwise would be. American Institute of Certified Public Accountants, *Contractors Audit and Accounting Guide*, Glossary, p. 199, *et seq.*, New York, NY (2002).

**GAAP:** The phrase “generally accepted accounting principles” is a technical accounting term that encompasses the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. It includes not only broad guidelines of general application, but also detailed practices and procedures. Those conventions, rules and procedures provide a standard by which to measure financial presentations. AU§411.

**GAAS:** The phrase “generally accepted auditing standards” represents the “general standards of conduct relating to the auditor’s professional qualities as well as to the judgments exercised by him in the performance of his examination and issuance of his report.” *SEC v. Arthur Young & Co.*, 590 F.2d 708, 785 n. 2 (9<sup>th</sup> Cir. 1979).

**Net Worth:** This is the difference between assets and liabilities. It represents the investment and retained earnings in the company. Analysts often use working capital and net worth as benchmarks to determine the level of credit capacity. John B. Fitzgerald, Ray Britt and Daniel D. Waldorf, *Principles of Suretyship*, Vol. I, p. 227 (Insurance Institute of America, 1<sup>st</sup> ed. 1991).

**Overbilling (Billings in Excess of Costs):** The difference between the total billings to date and the total costs and recognized estimated earnings to date. These are a liability that offsets the effects of those contracts where billings exceed the progress toward the completion of the project(s). Jeffrey S. Russell, *Surety Bonds for Construction Contracts*, pp. 82, 91, ASCE Press (2000).

**Payment Bond:** A bond executed by a contractor to protect suppliers of labor, materials, and supplies to a construction project. American Institute of Certified Public Accountants, *Contractors Audit and Accounting Guide*, Glossary, p. 199, *et seq.*, New York, NY (2002).

**Percentage of Completion Method:** This recognizes income or losses from incomplete contracts, but is does so only as this income is earned. This method works by applying a formula used to determine actual costs incurred to the total estimated costs on completion. Balance sheet treatment is also given to the cost/billing relationship. John B. Fitzgerald, Ray Britt and Daniel D. Waldorf, *Principles of Suretyship*, Vol. I, p. 179 (Insurance Institute of America, 1<sup>st</sup> ed. 1991).

**Performance Bond:** A bond issued by a surety and executed by a contractor to provide protection against the contractor's failure to perform a contract in accordance with its terms. American Institute of Certified Public Accountants, *Contractors Audit and Accounting Guide*, Glossary, p. 199, *et seq.*, New York, NY (2002).

**Profit Fade:** Profit fades are declines in the estimated or the interim profits (or losses) at the end of the preceding year to the project's actual performance at its completion. Profit fades can be due to a number of factors ranging from the contractor's performance to the default or insolvency of its subcontractors or suppliers. It can also signify that the contractor's original estimate of its costs to perform the work and its profits were inaccurate. Carmichael, Roberts and Griffith, *Guide to Construction Contractors*, Vol. I, Sec. 502.17, (Practitioners Publishing Co. 2002).

**Progress (Advance) Billings:** Amounts billed, in accordance with the provisions of a contract, on the basis of progress to date under the contract. American Institute of Certified Public Accountants, *Contractors Audit and Accounting Guide*, Glossary, p. 199, *et seq.*, New York, NY (2002).

**Recognition:** The process of formally recording or incorporating an item in the financial statements of an entity. AICPA Statements of Financial Accounting Concepts (“SFAC”) 6.

**Revenue:** Increases in assets or decreases in liabilities during a period from delivering goods, rendering services or other activities constituting the enterprise’s central operations. SFAC 6.

**Statement of Position (SOP):** Statements which provide guidance on practice or industry financial accounting or report problems until the Financial Accounting Standards Board or Governmental Accounting Standards Board provides standards in those areas. They are also intended to influence the establishment of such standards, and to update, revise, or clarify audit and accounting guides or provide for guidance. Glossary of Terms, Acronyms and Abbreviations, American Institute of Certified Public Accountants, [www.aicpa.org](http://www.aicpa.org).

**Underbilling (Costs and Estimated Earnings in Excess of Billings):** The difference between the total of costs and recognized estimated earnings to date and the total billings to date. This is an asset that offsets the understatement of sales, net income and ultimately equity when the actual completion of project(s) is ahead of billings. Jeffrey S. Russell, *Surety Bonds for Construction Contracts*, pp. 80, 91, ASCE Press (2000).

**Work Papers (Working Papers):** These are “records kept by the auditor of the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement.” AU§339.03. The work papers should include documentation showing the audit evidence obtained, the auditing procedures applied and the testing performed, leading ultimately to the conclusion that the audit team has obtained sufficient, competent, evidential matter to afford a reasonable basis for the audit opinion. AU§339.05c.

**Working Capital:** This is the difference between current assets and current liabilities. Working capital measures the short-term aspects of the operating cycle, and creditors use it to evaluate the company's ability to furnish cash in the current year. John B. Fitzgerald, Ray Britt and Daniel D. Waldorf, *Principles of Suretyship*, Vol. I, pp. 226-27 (Insurance Institute of America, 1<sup>st</sup> ed. 1991).

UNITED STATES FIDELITY AND  
GUARANTY COMPANY,  
By its counsel,

/s/Bruce D. Levin  
Peter B. McGlynn, Esquire  
Bruce D. Levin, Esquire  
Bernkopf, Goodman & Baseman LLP  
125 Summer Street, Suite 1300  
Boston, Massachusetts 02110  
Telephone: (617) 790-3000  
Facsimile: (617) 790-3300

and

Peter Speaker, Esquire  
Thomas, Thomas & Hafer  
305 North Front Street  
Harrisburg, PA 17101  
Telephone: (717) 237-7100  
Facsimile: (717) 237-7105

Dated: October 14, 2003

**CERTIFICATE OF SERVICE**

I hereby certify that a true copy of **United States Fidelity & Guaranty Company's Glossary** was served upon the following by first class mail, postage prepaid, on October 14, 2003:

Kathleen Carson  
Swartz Campbell LLC  
1601 Market Street  
34<sup>th</sup> Floor  
Philadelphia, PA 19103-2316

/s/ Bruce D. Levin

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